

**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK**

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IN RE MORGAN STANLEY & CO., INC.	:	Lead Case No. 08 Civ. 7587 (AKH)
AUCTION RATE SECURITIES	:	
DERIVATIVE LITIGATION	:	
	:	(Derivative Action)
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This Document Relates To:	:	
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ALL ACTIONS	:	
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NOTICE OF TRANSMITTAL OF RESPONSE TO DEMAND LETTER

PLEASE TAKE NOTICE that, pursuant to the Court's January 27, 2010 Order, the Board of Directors of Morgan Stanley & Co., Inc. responded, in a letter dated April 26, 2010, to the shareholder demand letter, dated August 24, 2009, sent on behalf of Plaintiffs Louisiana Municipal Police Employees Retirement System and Terry G. Thomas. A copy of said response letter is attached.

Dated: April 27, 2010
New York, New York

Respectfully submitted,

SIMPSON THACHER & BARTLETT LLP

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VIA FEDERAL EXPRESS

April 26, 2010

Re: Auction Rate Securities Shareholder Demand Letter

Albert M. Myers, Esq.
Kahn Swick & Foti, LLC
650 Poydras Street, Suite 2150
New Orleans, Louisiana 70130

Dear Mr. Myers:

In accordance with Judge Hellerstein's January 27, 2010 Order, I am writing to provide you the response of the Board of Directors of Morgan Stanley & Co., Inc. (the "Board") to your letter, dated August 24, 2009, to Mr. John J. Mack, which was sent on behalf of two purported Morgan Stanley shareholders, Louisiana Municipal Police Employees Retirement System and Terry G. Thomas (the "Demand Letter"). The Demand Letter demands that the Board "take action" against certain current and former Morgan Stanley directors and officers who allegedly breached their fiduciary duties and committed other alleged wrongdoing in connection with Morgan Stanley's marketing and selling of auction rate securities ("ARS") during 2007 and 2008, and "correct [the purported] deficiencies in the Company's risk management policies and internal controls that enabled the [alleged] misconduct to occur."

After receiving the Demand Letter, the Board asked the Audit Committee to review the matters raised in the Demand Letter and to make a recommendation to the Board as to an appropriate response to the Demand Letter.¹ The Audit Committee retained our law firm to assist with its review of the matters raised in the Demand Letter and its recommendation to the Board.

In connection with the Audit Committee's review of the matters raised in the Demand Letter, we met with attorneys from the law firm Skadden, Arps, Slate, Meagher & Flom LLP ("Skadden"), which previously conducted a comprehensive investigation of Morgan Stanley's marketing and selling of ARS during 2007 and 2008 in response to

¹ Audit Committee member O. Griffith Sexton recused himself from the Audit Committee's review of the matters raised in the Demand Letter and recommendation to the Board.

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several regulatory investigations, including investigations by the Securities and Exchange Commission ("SEC") and New York Attorney General's Office. During the course of its investigation, Skadden reviewed approximately 2.8 million pages of electronic and hard copy documents, and interviewed twelve Morgan Stanley employees, a number of whom were interviewed multiple times. As requested in the Demand Letter, we also met with you and your colleague, Mark McGuane, on October 26, 2009 to give you the opportunity to further explain the factual and legal bases for the Demand Letter's allegations.

In addition, as part of the Audit Committee's evaluation and investigation of the matters raised in the Demand Letter, we conducted an independent review and analysis of the relevant material from Skadden's prior investigation, and also investigated certain matters that were not a focus of Skadden's prior investigation by requesting and reviewing additional documents and speaking with relevant Morgan Stanley employees.

After completing our work, we provided the Audit Committee with a written report detailing the steps we took to review the Demand Letter's allegations and our findings and recommendation regarding the matters raised in the Demand Letter. In addition, we met multiple times with the Audit Committee to discuss our review of the Demand Letter's allegations, report, findings and recommendation.² After evaluating the facts relevant to Morgan Stanley's marketing and selling of ARS in 2007 and 2008, and our review of the Demand Letter's allegations, report, findings and recommendation, the Audit Committee unanimously resolved to recommend to the Board at its April 20, 2010 meeting that the demand in the Demand Letter be refused in its entirety.

In advance of the Board's meeting, we provided, at the request of the Audit Committee, a copy of our report to the Board members who did not recuse themselves from the Board's consideration of the Audit Committee's recommendation and response to the Demand Letter (the "Participating Board Members").³ At the Board's April 20 meeting, the Audit Committee made a presentation to the Participating Board Members concerning our report, findings and recommendation, and the Audit Committee's investigation of the Demand Letter's allegations and recommendation that the Board refuse in its entirety the

² Because Mr. Sexton recused himself from the Audit Committee's review of the matters raised in the Demand Letter and recommendation to the Board, he did not receive any copies of our report and did not participate in any meetings during which our report, findings and recommendation were discussed.

³ Board members John J. Mack, James P. Gorman, Roy J. Bostock, O. Griffith Sexton and Laura D. Tyson recused themselves from the Board's consideration of the Audit Committee's recommendation as to an appropriate response to the Demand Letter, and the Board's review of the matters raised in the Demand Letter and response to the Demand Letter.

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demand in the Demand Letter.⁴ After carefully considering the Audit Committee's investigation, presentation and recommendation, as well as the Demand Letter and our report, findings, and recommendation to the Audit Committee, the Participating Board Members unanimously agreed with the Audit Committee's recommendation and resolved to refuse the demand in the Demand Letter in its entirety.

Very truly yours,


Bruce D. Angiolillo

cc: Honorable Alvin K. Hellerstein
Roy L. Jacobs
Laurence D. Paskowitz

⁴ Because Messrs. Mack, Gorman, Sexton and Bostock and Dr. Tyson recused themselves from the Board's consideration of the Audit Committee's recommendation and response to the Demand Letter, they did not receive a copy of our report and were not present during the Audit Committee's presentation to the Board.